US Employment to Boost USD After ECB Shock(2015.12.04)

The anticipation for the biggest indicator in the forex market just got more intense. The European Central Bank (ECB) had put out a very strong signal that it would push a significant increase to its stimulus program to avoid the growing threat of deflation. Failure to deliver, or in this case half deliver on the central bank's promises has reduced the market's trust and raises questions on its ability to communicate. The EUR/USD has surged as the monetary policy divergence trend was broken with the EUR surging more than 3 percent versus the USD. U.S. economic indicators have been mixed since the October Federal Open Market Committee (FOMC) meeting. Upward revisions to GDP growth in the third quarter and a rise of durable good orders are balanced against weaker manufacturing and non manufacturing purchasing manager indices (PMI)s. Various Fed members have stated the possibility of a rate hike in December. Fed Chair Janet Yellen has been one of the more vocal with comments like "economic conditions falling into place""" ahead of the December FOMC meeting. Employment has been the strongest pillar driving the U.S. recovery and the market is forecasting gains of 200,000 or above. Last month the Bureau of Labor Statistics reported a monster 271,000 gain obliterating the 181,000 forecast. After the ECB disappointment the market will looking for signs that the U.S. part of the equation is still solid. The non farm payroll report will be published on Friday, December 4 at 8:30 am EST. The EUR/USD has appreciated 3.37 percent in the past 24 hours. The ECB announcement disappointed the expectations of the market and saw the single currency surge from session lows of 1.0524 ahead of the statement up to 1.0975. The 1.10 price level remains under threat and in a single day the EUR/USD has erased all the depreciation sparked by the October Federal Open Market Committee (FOMC) meeting where the December U.S. rate hike was strongly implied. The European Central Bank (ECB) had managed to convince the market that this was not the central bank of old that dealt with half measures. ECB President Mario Draghi had shown willingness to commit and expressed with certainty that policymakers would do “whatever it takes” and do “what it must”. The words had the desired effect both when the market needed reassurance during the Greek debt crisis and lately as the first round of quantitative stimulus did not manage to boost European growth as intended. The EUR depreciated as there was an expectation built by the ECB that there will be a higher monetary policy divergence with the US Federal Reserve by the end of the year. The U.S. Fed is expected to finally hike the benchmark rate for the first time in almost a decade, for its part the ECB would tighten monetary policy pushing the EUR lower and the USD higher. This is not what happened on Thursday morning. As mentioned earlier on MarketPulse the ECB had three options: Do nothing, throw the kitchen sink, a mixed bag of measures. The ECB went with the safest of the three and put together a mix of a deposit rate cut deeper into negative territory, an extension of the quantitive easing program, but no increases to the amount of bonds for purchase. The market was expecting a bazooka and was underwhelmed by the announcement. To make matters worse the Financial Times incorrectly published a story ahead of the ECB statement that said the central bank did not alter the deposit rate. The story was pulled but it was too late, the market was expecting the ECB will not deliver on its promises. USD events to watch this week: **Friday, December 4** 8:30 am USD Non-Farm Employment Change 8:30 am USD Trade Balance 10:00 am OIL OPEC Press Conference **Source :marketpulse**